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C O N F I D E N T I A L SECTION 01 OF 02 DUSHANBE 001424

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SUBJECT: TAJIK INDUSTRY MINISTER WANTS U.S. JOINT VENTURE TO FLY SOLO

REF: HILLMEYER - HOAGLAND EMAIL 6 JULY 2006

CLASSIFIED BY: Richard Hoagland, Ambassador, U.S. Embassy, Dushanbe, State.

REASON: 1.4 (a), (c)

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1. (SBU) An antimony mining joint venture with New Jersey-based COMSUP has been so successful, according to Minister of Industry Zaid Saidov, the Tajik government would prefer the U.S. firm own one hundred percent of the operation, rather than 49%. In a July 18 meeting with PolOff, Saidov explained the Government of Tajikistan's recent proposal to sell its shares in Anzobskigok, a mining enterprise was not an attempt to pressure COMSUP, but instead a way for COMSUP to keep control of the operation in the face of privatization.

2. (SBU) Should COMSUP elect not to purchase the controlling interest in the joint venture, the shares would go up for auction in January as part of the state privatization plan. (NOTE: Under the official privatization plan, most state-owned enterprises should be privatized in January 2007. In addition to Anzobskigok, the state-owned companies slated to privatize include the electric utility Barqi Tojik, Tokjikgas, Tajik Airlines, and Tajikistan's biggest producer, the aluminum company TadAZ. However, recent press reporting suggests TadAZ has been taken off the block. END NOTE.)

3. (SBU) Rather than sell the shares in Anzobskigok to an untested foreign investor, the Ministry of Industry would prefer to see COMSUP take ownership of the entire company. Saidov reported that a number of different companies already expressed

interest in Anzobskigok, including Kazakh and Chinese firms, for more than double the \$3 million it proposed to COMSUP. Anzobskigok anticipates extracting up to 750,000 tons of ore to produce 250,000 tons of antimony concentrate by the end of 2006.

14. (SBU) Said indicated the proposal reflected the Tajik government's limitations on investing in its own enterprises. If COMSUP were the sole owner, there would be no limitations on what it put into Anzobskigok. (NOTE: COMSUP has already invested \$4 million in the Tajik venture. END NOTE.) "We want to attract foreign investment," said Saidov. "This is in both of our interests." The government would like to see an ore production facility in Tajikistan, rather than shipping the concentrate to Kyrgyzstan or China for processing, but cannot afford to match any new investments. Currently, the antimony concentrate exported for production contains gold and silver that never end up profiting Tajikistan.

15. (SBU) COMSUP's contracts and documents establishing the Anzobskigok joint venture are all legal, confirmed Saidov; should COMSUP choose not to purchase majority shares, the contract would still be honored. When the joint venture was established, foreign companies were required to have a Tajik partner. Now, under a new law on foreign investment, foreign investors can own one hundred percent of their operations.

16. (C) COMMENT: Saidov seemed to be operating under good faith when he suggested the Tajik government was so pleased with COMSUP, it would rather see them take full control of the operation than have another investor take part. If this proposal truly is part of the privatization plan, it represents a sensible first offer to a company that could lose much should another investor take 51%.

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17. (C) COMMENT CONTINUED: However, given the example of Gerald Metals, where the Tajik government refused to honor agreements signed under one director of a state company after he was removed from his post, COMSUP is smart to be concerned about the proposal. It is also unclear whether there are really foreign investors interested, or whether the Ministry of Industry is trying to pressure COMUSP to take on more than they want in Anzobskigok. END COMMENT.
HOAGLAND